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GOVERNOR PATRICK ANNOUNCES PLANS TO FILE LEGISLATION TO REFORM RETIREE HEALTH INSURANCE BENEFITS

Reform Would Tackle Fiscal Challenges Head-On, Save As Much as \$20 Billion over the Next 30 Years

BOSTON – Friday, January 11, 2013 – Governor Deval Patrick today announced plans to file legislation to reform health insurance benefits for retirees that would save as much as \$20 billion for the Commonwealth and municipalities over the next 30 years. Today's announcement builds on the Governor's record of reform and his Administration's commitment to fiscal responsibility for the long-run.

"We have worked hard to make government work better," said Governor Patrick. "With this reform, we create a benefit system that is both fair and sustainable."

The legislation would be based on recommendations included in today's report released by the Commission to Study Retiree Healthcare and Other Non-Pension Benefits (OPEB). The pension reform bill, signed November 2011, established the Commission to investigate and study retiree healthcare and other non-pension benefits. Membership includes Republican and Democratic members of the legislature and representatives from the Executive Office of Administration and Finance, Treasurer's Office, Group Insurance Commission, Massachusetts Municipal Association, and Labor. After a series of nine meetings from April - December 2012, the Commission has approved a set of recommendations to ensure the sustainability of the system for future retirees.

"This proposal to reform retiree health insurance benefits is yet another example of our Administration's long-standing commitment to providing cities and towns with cost-saving measures," said Lieutenant Governor Timothy Murray. "It offers municipalities another tool in the toolbox that will help to support the continued delivery of critical local services, while continuing to provide quality healthcare benefits for our future retirees."

Since taking office, the Patrick-Murray Administration and the Legislature have implemented a number of fiscal management reforms to ensure structurally balanced and responsible budgets that are sustainable over the long term, earning the Commonwealth the highest credit ratings in state history. In addition, the Patrick-Murray Administration and the Legislature have passed a number of reforms to public employee benefits to generate significant savings that have helped state and local government continue to pay for core services during tight fiscal times. These include pension reform to modernize the pension system, saving taxpayers over \$5 billion over the next 30 years, and municipal health reform, which has achieved premium savings totaling more than \$175 million in its first year.

Based on the Commission's recommendations, the planned legislation will seek to:

- Increase the minimum years of service requirement from 10 to 20 years;
- Increase the minimum age for eligibility to 60 (for Group 1) for most employees;
- Prorate benefits on a scale from 50% premium contribution after 20 years to the maximum current retiree benefit (e.g. 80% of premium for State retirees) at 30 years;
- These reforms will not apply to current retirees or to current employees who:
 - Are within five years of retirement age for their Group and have completed 20 years of service as of the reform's effective date; and
- Direct the Group Insurance Commission to investigate the adoption of an employee group waiver program for prescription drugs which would result in increased federal subsidies and savings to the Commonwealth. The expected savings for the

Commonwealth in the first year of implementation would be as much as \$20 million.

"The Patrick-Murray Administration has consistently demonstrated strong, proactive and responsible fiscal leadership," said Secretary of Administration and Finance Glen Shor. "This legislation is another big step towards ensuring the sustainability of health insurance benefits for current and future state and municipal career employees."

"It is a tribute to all stakeholders that we were able to develop reforms of the retiree health system that insure continued retiree health care for longer term public employees while providing significant financial savings to the state, municipalities and the taxpayers," said Joanne F. Goldstein, Secretary of Labor and Workforce Development. "I am particularly gratified that the Commonwealth recognized the need and value to have public employees and retirees and their collective bargaining representatives at the table. I want to thank these representatives for engaging in this issue and helping to fashion a result that provides a meaningful level of retiree health care in the context of state and municipal budgetary constraints."

"I am pleased that our office was able to make a significant contribution to the work of the OPEB commission and to other reform efforts over the last two years," said Treasurer Steven Grossman. "These reforms send a strong message to the financial markets about Massachusetts's proven track record of fiscal prudence, sound management, and effective government. We have a \$230 million bond issue scheduled for next week and expect to go to market in the next few months with more than \$1.2 billion in additional borrowing. We think this nation-leading reform work will be reflected in lower interest costs for Massachusetts taxpayers and will help preserve the Commonwealth's strongest-ever bond AA+ rating."

"Massachusetts has proven to be a leader in spending reform and fiscal responsibility in recent fiscal years," said Senator Stephen M. Brewer, Chair of the Senate Committee on Ways and Means. "We are dealing with a volatile fiscal climate and I am proud of the reforms we have been able to achieve thus far. This is a step towards continuing the practice of advanced planning and sound management; I look forward to reviewing this proposal and working to establish an efficient plan that will sustain our retirement system in the future."

"The Commission's recommendations provide a road map for the Commonwealth and its municipalities to continue to offer significant retirement benefits to career employees while working towards overall fiscal sustainability", said Representative John W. Scibak. "I commend my fellow commission members for their hard work and professionalism throughout this process and look forward to working on this issue with my colleagues in the House."

"I'm very grateful for the Commission's thoughtful work on this subject and I'm hopeful that we will be able to enact legislation based on their recommendations," said Senator William Brownsberger.

"I am pleased and thankful for the concerted effort of all those on the OBEB Commission in reforming post-employment benefits for the Commonwealth and its municipalities," said Senator Jack Hart. "Through this comprehensive commission process, I believe, we are recommending the necessary proper steps in moving the Commonwealth towards fiscal sustainability."

"I am honored to have served on this commission," said Senator Michael Knapik. "It is essential that the Commonwealth recognize the increasing strain the OPEB liability will have on the state and the municipalities in the coming years. This report contains strong recommendations that will better align Massachusetts with other states, the federal system, and the health care cost containment and pension legislation passed in the recent years."

"Curbing rising health care costs and providing some parity in retiree health benefits systems with the private sector is the key to providing long-term stability of the systems while saving taxpayers money," said Representative Jay Barrows. "A lot of good work was done by the Commission members to come to agreement on these recommendations – this is the first bite at the apple and I look forward to continuing working towards a sustainable solution."

"Health care and unfunded governmental liabilities are complex and tough challenges – just look at our national debates," said Commission Chair Henry Dormitzer. "But this group of serious people with diverse interests found a way to save Massachusetts \$20 billion over 30 years while recognizing the critical importance of motivated employees who have committed their career to public service."

"It was important that the overall goal of addressing state and local OPEB fiscal challenges not come at the expense of crucial health insurance coverage for current and future retirees", said Andrew Powell, the Massachusetts AFL-CIO representative to the Commission. "Labor's position all along was to ensure access and affordability for retiree health insurance without jeopardizing current services and future coverage for those who proudly contribute to the public good. The findings in the report is a step toward that balance."

"Rising healthcare costs are a major concern of all retirees, public and private sector alike. We saw this Commission as a way to help be part of the solution. Getting to this point was not easy, but the twelve commission members worked hard to find a solution that works," said Shawn Duhamel, of the Retired State, County and Municipal Employees Association. "Not only will these recommendations achieve significant savings, they also provide long-term protections and stability for retirees. No retiree should ever have to worry about being able to afford or access quality healthcare."

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